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ABSTRACT

A review is provided of the major fiscal, historic, and management issues influencing the debate about community college finance and governance in California. The report begins with a brief discussion of the major points of difference between the funding mechanisms for the community colleges and for the state's two public university systems. These differences include the community colleges' place in the budget process, their lack of statewide faculty salary scales, their block budget allocations, their lack of state expenditure controls, their Board of Governor's lack of budgetary flexibility, and their governance structure. An overview of the different systems of finance under which the California community colleges have operated since 1975 is followed by a summary of the major defects of the current funding system (e.g., enrollment-driven budgets, lack of enrollment planning or management, limited local decision making, lack of state accountability and control, emphasis on legislative liaison, and disagreement over state priorities). After summarizing the key elements of current proposals to fund the colleges on a program budget basis, the report concludes with a re-iteration of the California Postsecondary Education Commission's policy on college finance. The executive summary of the recent report on community college finance by the Task Force on Assembly Bill 3409 is appended. (UCM)

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DEVELOPMENTS IN COMMUNITY COLLEGE FINANCE

A Staff Report to the California Postsecondary Education Commission

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SUMMARY

California's current law for financing its Community Colleges is due to expire in 1989, by which time the Legislature and the Governor must agree on a new system of finance for them. The California Postsecondary Education Commission has historically played an active role in advising the Legislature and Governor on matters of Community College finance, and that role is expected to continue next year.

In anticipation of those discussions, Jane V. Wellman of the Commission staff wrote this report as background information for the Commission. She begins the report with a brief discussion of the major points of difference between the funding mechanism for the Community Colleges and that of California's two public university systems. On pages 3-7, she then reviews the different systems of finance under which the Community Colleges have operated since 1975, and she summarizes the major perceived defects of the current funding system as well as the key elements of current proposals to fund them on a program budget basis. She concludes the report on pages 7-8 with a reiteration of the Commission's existing policy principles for Community College finance that are expected to guide staff in discussions throughout the next year. Two appendices reproduce those existing policy principles and the executive summary of the recent report on Community College finance of the Task Force on AB 3409.

Ms. Wellman presented the report to the Administration and Liaison Committee of the Commission at its December 14, 1987 meeting. Additional copies of the report may be obtained from the publications Office of the Commission at (916) 322-8031. Questions about the report may be directed to Ms. Wellman at (916) 322-8017.

COMMISSION REPORT 87-46
PUBLISHED DECEMBER 1987

THIS is one in a series of staff reports on important issues affecting California postsecondary education. These reports are brought to the California Postsecondary Education Commission for discussion rather than for action, and they represent the interpretation of the staff rather than the formal position of the Commission as expressed in its adopted resolutions and reports containing policy recommendations.

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Developments in Community College Finance

THE Commission has historically played an active role in matters related to the funding and management of California's Community College system. That role is necessitated by several factors:

1. The unique place of the Community Colleges in California's system of postsecondary education as the point of access for the overwhelming majority of the State's students;
2. The instability of Community College finance following the end of local fiscal control for Community College districts with the passage of Proposition 13 in 1978; and
3. The active role of the State Legislature in the financing of Community Colleges, evidenced by the fact that that system alone in the three public segments is funded by a mechanism that is written into law.

Because of its credibility in these matters, coupled with the contentious nature of debate about Community College issues, the Commission and its staff have also been asked on many occasions to coordinate discussions about important policy matters and it seeks to be a neutral voice in negotiations on long-term solutions to some of the systems' perennial funding problems.

To help the Commission anticipate future developments in Community College finance, this paper reviews briefly some of the major fiscal, historic, and management issues that influence the debate about Community College finance and governance. It is organized into five sections: (1) the nature of Community College finance in California; (2) evolution of Community College finance; (3) perceived problems with the existing funding system; (4) next steps in Community College funding, and (5) the Commission's current position on Community College finance.

The nature of Community College finance in California

The California Community Colleges have a very different place in the State budget process than the State's two public universities. The reasons for the differences are a function both of the history of the Community Colleges -- evolving as they have from the locally managed and funded public school system -- and their size, serving over 1.1 million students at 106 campuses managed by 70 different districts. The essential differences, briefly, are six -- (1) their place in the budget process; (2) their lack of statewide faculty salary scales: (3) their block budget allocations; (4) their lack of State expenditure controls; (5) their Board of Governor's lack of budgetary flexibility; and (6) their related governance structure.

1. *Place in the budget process*

The budgets of California's two public university systems are treated as "state operations" for State budgeting purposes, whereas that of the Community Colleges is classified as a "local assistance" item, as is the public school system. Although the distinction between the two is in some ways a budget artifact from the pre-Proposition 13 environment, the differences are important technically as well as symbolically. As "state operations," the two universities receive State funding in four major categories:

1. "Base" funding, adjusted by workload, for agreed-upon levels of support;
2. Salary adjustments;
3. Non-salary inflationary adjustments (known as "price increases"); and
4. New program funding.

With very few exceptions, the budget formulas used to generate the "base" are not memorialized in stat-

ute or regulation but remain flexible negotiation instruments between the universities and the Department of Finance.

In contrast, as a "local assistance" item, the Community Colleges' funding level is set by law, and their programs are funded according to formulas that are put in statute. The Governor's Budget each year proposes funding for whatever the law requires, adjusted for current population, along with a cost-of-living adjustment (COLA) that is indexed to a measure of inflation that is also put in law. The Governor may propose funding for a local assistance item that is greater than what is required by law, or, alternatively, may ask the Legislature to amend the statute in order to give less, but because the funding is set in statute, changes to the level require changes in the law. For that reason, the Community Colleges must each year sponsor legislation on finance, even if only for minor technical changes. Another by-product of the local assistance budget characteristics of the Community Colleges is that their budget negotiations focus, of necessity, heavily on the Legislature, and the relationships that are built up between the universities and the Department of Finance tend not to exist for the Community Colleges. In a state such as California, with a strong executive budget process, this fact can be very important over time.

2. *Lack of statewide faculty salary scales*

California's two public universities have statewide faculty salary scales, so faculty on all campuses are paid on the same basis. Their salary scales are set by the Governor and the Legislature, based on a methodology that compares California faculty salaries to a set of agreed-upon institutions throughout the country. The Postsecondary Education Commission is responsible under the law for maintaining the faculty salary methodology and informing the Governor and the Legislature of the amount of money needed to keep the salaries at parity with the comparison institutions. Although the faculty in the State University bargain collectively, the State University and its faculty are prohibited by the salary scale from agreeing at the bargaining table to increase salaries beyond the parity figure.

The Community Colleges, conversely, have no statewide salary scale; faculty salaries are set by local governing boards in consultation with faculty through the collective bargaining process; and no technical limit exists on salary increases that are agreed to by both parties in bargaining.

3. *Block-budget State allocations*

The operation of California's two universities are funded on a "program budget" basis, whereby major categories of expenditure are agreed upon that reflect the major activities of the campuses The major categories are: instruction, research, libraries, public service, student services, libraries, maintenance, administration, and auxiliary enterprises. For each category, workload measures that are considered to be fair measures of resource requirements are negotiated and agreed to by the Department of Finance and the Legislative Analyst.

In contrast, the Community Colleges are not funded programmatically, in that their allocations are not tied to activities such as instruction or administration, or to personnel or non-personnel costs. With the exception of non-credit education and their major categorical programs such as Extended Opportunity Programs and Services, local allocations from the State are made on what is known as a "block-budget" basis -- a lump sum of resources not tied to any expenditure areas. The workload measure for this allocation is entirely enrollment-driven, measured by a device known as "average daily attendance," or ADA. Because their budget is not funded programmatically, comparing funding levels among the districts has historically been difficult.

4. *Lack of State expenditure controls*

Although faculty salary scales are perhaps the most important form of State expenditure control over California's two public universities, the universities are also subjected to more detailed expenditure control by the Department of Finance than are the Community Colleges. Barring exceptional circumstances and even then only with the permission of the Department of Finance, they may not reallocate funds to one program category that were budgeted to another category. Since no State budget categories or statewide salary scales exist for the Community Colleges, no expenditure control is possible by the State.

5. *Budgetary inflexibility of the governing board*

The central administrations of California's two public universities make the allocations of State resources among their campuses, since the State allocates these resources on a lump-sum basis by program area to them. These campus allocations are made according to student-faculty ratio and other program workload measures. In this internal allocation process, central administrators have some limited ability to reallocate resources when necessary to campuses in fiscal difficulty. In the Community Colleges, however, the Board of Governors has no ability to reallocate resources among the districts but rather passes on the resources strictly according to formula.

6. *Governance*

The system of finance has important implications for the governance of any system; indeed, a discussion of finance can as well be couched as a discussion of governance. The controls by the State of expenditures and salaries in the two university systems have powerful implications for what decisions can be made at the local campus level. In addition to a significant role for the State in controlling expenditures, the two university systems are governed by statewide boards that have more management control of their individual campuses than does the Board of Governors of the Community Colleges. That management control extends from the appointment of campus presidents and chancellors to setting statewide personnel policies for faculty and non-academic personnel and statewide regulations on admissions and curriculum. In addition, systemwide administrators play a central role in the development and negotiation of budget priorities with the Department of Finance and the Legislature.

In the Community Colleges, conversely, the management of local districts is the responsibility of locally elected boards of trustees. The presence of 70 individually elected boards, in addition to the statewide Board of Governors (all of whom are appointed by the Governor), introduces a physical and political complexity into Community College governance that is unparalleled in the two university systems. The Community Colleges' size alone makes statewide line management of district affairs a practical impossibility.

Evolution of Community College finance

Over the past 15 years, three central themes have dominated the discussions of funding and reflect dilemmas that continue to the present day -- (1) the separation of Community Colleges from the system of public school finance and governance, without ever completely moving the Community Colleges into the arena of State budgeting; (2) controls on course classification and on funding for adult non-credit education; and (3) the debate over the fundamental mission of the Community Colleges and which functions of their mission deserve full State funding. During this decade and a half, the Community Colleges have operated under at least eight different systems of Community College finance, not counting "trailer bill" and other "technical" legislative changes in finance bills. According to a review of Community College finance by the Chancellor's Office for the Board of Governors at its October 1987 meeting, these eight include the following:

1947-1973: *State foundation program*

Until 1973, State funding was set at a fixed rate of support, tied to average daily attendance (ADA), at a level identical for all districts. The support amount was known as the "foundation level," and districts were free to increase funding from local property taxes in excess of the State level if they so chose. (This concept of "foundation level" was identical to the central finance mechanism then used for the schools.)

1973-1975: *Revenue limits*

The Serrano-Priest decision, which did *not* extend to Community Colleges, caused the State to change the way it financed the public schools in order to minimize inequities in funding between local districts. The Legislature's 1972 Joint Committee on the Master Plan urged that this Serrano principle be extended to Community Colleges in order to extend California's commitment to lifelong equality of opportunity for access to postsecondary education. Accordingly, in Senate Bill 6 of 1973, the Legislature adopted for the Community Colleges a "revenue limit" model similar to the one put into place for the schools. This revenue limit model set a different limit for each district, fixed the local property-tax contribution, and provided additional State resources as necessary to

equalize funding between districts. Senate Bill 6 also supported unlimited access to Community Colleges by funding all growth in enrollments, without distinction to type or purpose of instruction.

1975-1976: *Growth caps*

The 1975 budget first put into place a 5 percent cap on new enrollments in the Community Colleges, although the entitlement for students to attend under open access was not changed. Growth above 5 percent was therefore allowed to occur, but this growth was not funded.

1976-1978: *Tax rate control*

Assembly Bill 1641 of 1976, sponsored by the State Department of Finance, provided tax rate control to limit each district's ability to increase property tax levies and to limit the State's funding liability for ADA growth. Because of the extraordinarily rapid rise in assessed valuation of property during this period, these growth and cost controls were not particularly hard felt at the local level, and revenues continued to be available to fund the core program and growth. Indeed, the assessed valuation growth was so great that several districts lowered tax rates during this time.

1978-1979: *Proposition 13 "bailout"*

When Proposition 13 was passed, the State chose to replace lost local property tax revenues with State funds which were then in surplus. Senate Bill 154 of 1978 was the Proposition 13 "bailout" legislation, and it shifted decision-making responsibility about the distribution of local tax revenues to the State, where the revenues became a general source of revenue for the State budget. Local districts thus lost decision-making authority over local property taxes. SB 154 reduced the Community Colleges' budget by 7 percent overall and provided funding as a "block grant" unrelated to enrollments.

1979-1981: *Marginal growth rate, equalization, and fixed appropriation*

The year after Proposition 13, the Legislature passed Assembly Bill 8 as a "permanent" solution to the new revenue situation. Under AB 8, the Legislature began to allocate cost-of-living adjustments differentially throughout the State budget and gradually equalize funding between local entities for the schools, public assistance and Community Colleges. For both the schools and Community Colleges, cost containment on enrollment growth was put into place with "marginal" rather than "full-cost" funding for ADA growth. The Legislature also fixed the appropriation for Community Colleges and did not fund enrollment growth beyond the budgeted amount. In 1980-81, enrollments grew 32,000 beyond the budgeted amount, resulting in a $50 million budget deficit.

1981-1983: *Non-credit rate and district ADA growth caps*

By 1981, the Pre-Proposition 13 budget surplus was completely gone, and the Legislature had to make base budget reductions throughout State and local government. After considering the imposition of Community College student fees, program cuts, and the use of local district reserves, the Legislature chose budget cuts by providing no inflation or growth funding and by eliminating $30 million from apportionments to eliminate State support for "avocational, recreational, and personal development" courses. A new Community College finance bill was also required in 1981. The resulting legislation (Assembly Bill 1369) was a companion bill to the 1983 Budget Act, and it carried forward many of the concepts of Assembly Bill 8.

In 1983, the Legislature and the Governor were concerned about non-credit funding in the Community Colleges. Debate was increasing about the mission of the colleges and whether non-credit (particularly "community service") courses were appropriate to that mission. There was also concern about the disparity between the amount of money available for such classes in the Community Colleges relative to the schools. AB 1369 created a new rate of support for non-credit courses, and required the Community Colleges' Chancellor's Office to put into place a statewide course classification system for credit and non-credit courses. The legislation also set ADA growth caps at the district, rather than the statewide level.

1983-1987: *Senate Bill 851*

Senate Bill 851 of 1983 was intended to carry forward a mechanism for Community College finance through 1987. The mechanism continued the concepts of equalization and provided equalization funding at 10 percent of the cost-of-living adjustment in order to move the lowest revenue districts to within 91 percent of the statewide average. It also continued Assembly Bill 1369's two-thirds marginal rate for growth, its district growth cap, and its distinction between credit and non-credit funding. In addition, it provided a new mechanism intended to stabilize budgeting to provide a buffer against short-term budget cuts associated with enrollment cuts.

The 1983 budget year also witnessed the controversy between the Governor and Legislature over the imposition of Community College fees. The Governor vetoed $100 million from the Community Colleges' budgets when the Legislature failed to establish a $50 per-semester fee. A compromise between all parties was reached in the middle of the budget year, but the districts received funds too late to restore many of the program cuts made for the fall and spring semesters. Statewide credit enrollments went down by 11 percent.

In 1984 and again in 1985, the Legislature and Governor took steps to protect district budgets against further budget losses associated with reduced enrollments. By the end of 1984, Community College credit enrollments had plummeted from a high in 1981 from 1,205,585 to 981,845. Although enrollments since that time have stabilized and started again to grow, the growth caps in current law do not allow the enrollments to be funded to previous levels.

Senate Bill 851 was to sunset in 1987, but the Legislature and Governor extended its expiration date until the 1988-89 budget cycle to allow time for decisions about alternative financing systems to be put into place. Thus Community College finance is expected to be "reformed" once again next year.

Perceived problems with the existing finance system

Perceptions vary widely both within and outside the Community College system about the major problems with the current mechanism for Community College finance. At one end of the continuum is the belief that the finance system is fine, but that the levels of support are inadequate. At the other end is the belief that the finance system is itself to blame for inadequate funding and enrollment losses, and that a changed system will generate more money for the colleges.

At the State level, the Legislative Analyst has argued that the current mechanism is fundamentally sound, but has called for a change in the equalization, cost-of-living adjustment, and growth mechanisms. The Department of Finance has pointed out that Senate Bill 851 has been fully funded, and it is on record as opposing a change in the system of finance solely for the purpose of putting more money into the system. The Postsecondary Education Commission and the Board of Governors have recently been joined by the Commission for the Review of the Master Plan in calling for a move from the ADA-driven funding system to a program-based system analogous to that used for the two university systems, and the Commission for the Review of the Master Plan has taken the argument one step further by calling for a strengthened role for the Board of Governors in the budget development and negotiation process.

Whatever the specific solution, there are several generally recognized problems with the system of Community College finance that any new system of finance should attempt to resolve. These problems -- many of which result from the nature of the Community Colleges themselves -- include the following six:

1. *Enrollment-driven budgets*

Community College budgets are exclusively enrollment driven and do not recognize that many costs such as maintenance of the physical plant and size of the core administration are only marginally related to enrollments.

2. *Lack of enrollment planning or management*

The open-access policy for Community Colleges does not allow for enrollment planning and management to occur at the State or local level in a way analogous to the public university segments. There has never

been a systematic reconciliation of the open-access policy with the decision to limit appropriations to certain enrollment levels, and thus there is no systematic enrollment planning or management process in the Community Colleges. Because enrollments are not managed, they are extremely vulnerable to short-term economic and budgetary influences. The problem of *enrollment* instability is exacerbated by *budgetary* instability, and the fact that the rules of Community College resource allocation have been so tinkered with in Sacramento over the past 15 years.

3. *Limited local decision making*

The size of the Community College system, as well as its system of governance, means that program and staffing decisions have to be made at a local level; yet the capacity of locally elected boards of trustees to manage local districts has been seriously eroded in the past ten years by the instability of the budget process.

4. *Lack of State accountability and control*

At the same time that local control has been seriously eroded, statewide accountability in a climate of disagreement about Community College goals and priorities has also been weak. Because there is no expenditure control for the main apportionments, districts are free to spend their resources as they see fit. While there is a general agreement that the State cannot run the Community Colleges from Sacramento, there is not agreement about how to ensure reasonable accountability for State resources. Suspicion about local decision priorities has grown in the past several years, as several districts have gone bankrupt and needed to ask the State for loans to keep their operations afloat.

5. *Emphasis on legislative liaison*

Because the Community Colleges are funded in statute, most attempts to influence State policy by individuals within the system are exerted on the Legislature. Equal attention has not been given to improving the system's negotiation capacity with the Department of Finance and the Governor in the annual budget process.

6. *Disagreement over State priorities*

Fundamental disagreement remains about what aspects of the system should be State priorities -- and therefore given full State support -- and which are local options to be managed and funded at the local level. For example, no agreement exists about whether or not equalization of funding for the districts should be a State priority or, if so, how it should be achieved.

Next steps: program-based funding

There is a good chance that Community College finance will dominate much of the Legislature and Governor's discussions relative to Community College reform in the next year. In anticipation of this likelihood, the Legislature in 1986 requested the Community Colleges' Chancellor's Office to form a task force to develop recommendations on "a new state support allocation mechanism, which is sensitive to and measures the full costs associated with the delivery of community college programs and services."

The Task Force on AB 3409 included these members:

Del Anderson, Vice President
Skyline College

Gregg T. Atkins, Coordinator of Library Services
College of San Mateo

Michael Brailoff, Instructor
College of Marin

David Brown, Member, Board of Trustees
Los Rios Community College District

Judy Day, Budget Analyst
State Department of Finance

Jerome Evans, Consultant
Commission for the Review of the Master Plan
for Higher Education

Joe Freitas, Acting Vice Chancellor,
Fiscal Affairs
California Community Colleges

Karen Grosz, Instructor
Santa Monica College

Hilary Hsu, Chancellor
San Francisco Community College District

Ed Keith, Instructor
Citrus College

Patrick McCallum, Executive Director
Faculty Association for the California
Community Colleges

Robert Miyashuru, Budget Analyst
Office of the Legislative Analyst

Joseph Newmeyer, Vice Chancellor,
Finance and Facilities
North Orange Community College District

Jose Robledo, Director
Student Financial Services
East Los Angeles Community College

F. Arnold Schuler
Deputy State Controller

Larry Toy, Instructor
Chabot College

Tom Van Gronigen, Chancellor
Yosemite Community College District

Jane Wellman (*Chair*), Postsecondary
Educational Administrator
California Postsecondary Education Commission

In its report to the Chancellor and the Board of Governors this past July (an executive summary of which is reproduced in Appendix A), the task force recommended that Community College finance be funded on a program budget basis, based on the following set of principles:

- The funding system should reflect the postsecondary nature of the colleges;
- The system should be congruent with the system of governance;
- The mechanism should be sensitive to actual costs;
- The mechanism should promote stability over time;
- It should promote equity among the colleges;
- There should be an avoidance of undue data collection; and
- Student fees should be kept as low as possible.

The task force derived its proposed workload measures and objective standards for funding the Community Colleges on a program budget basis in most instances from the funding levels now in place for the State University. As an example, for their instructional budget, the task force suggested reducing average class size from the current 30:1 to 25:1 -- the lower-division ratio of the State University -- and increasing the number of full-time faculty. All of the cost estimates put forward by the task force are tentative, and refinements of them are continuing, but the task force estimated that the statewide costs for those changes if implemented in one year would be $214 million.

The task force recommended that the funding mechanism be used for allocation purposes only and was in general opposed to expenditure control by the State. It also made clear that a change to a new system of allocating resources would be an immense administrative and technical task and should not be done unless accompanied by new resources to fund program improvement. Even without progress on program improvements, the costs to the State to implement a program budget -- which would have the effect of funding all districts at the statewide average for all categories of activity -- is estimated to be close to $100 million.

The Department of Finance, the Academic Senate, and the American Federation of Teachers all submitted minority reports to the task force report. Some of the objections they raised were technical in nature, relating to the implementation of the approach, and are being worked out in consultation between all parties as more work is done on the allocation model. However, other objections -- particularly those raised by the Department of Finance -- are fundamental to the entire concept of a program budget and funding standards. These objections, coupled with the problems of finding new resources, make full implementation of program budgeting in the near future problematic.

The Commission's current policy position on Community College finance

In 1983, the Commission adopted its *Principles for Community College Finance* to have in place a broad

set of policy guidelines that could aid Commission staff in their work on the subject of Community College funding. (Appendix B lists the entire set of principles.) These principles have several major premises:

- Funding should support the mission of the Community Colleges;
- Funding should be sufficiently stable to support long-range planning at the statewide level as well as local program decision making;
- Local decision making should be supported with discretionary revenue at the local level;
- State apportionments should promote equity among the districts; and
- The financing mechanism should recognize differences in costs for different essential Community College operations.

These principles have effectively guided staff, on behalf of the Commission, as they have been involved over the years in discussion of Community College finance. They continue to be one of the most comprehensive statements of principles for Community College finance yet put in place, and the staff expects to use them as its framework for discussions with other interested parties about ways to make improvements in State financing of Community Colleges.

Appendix A

Executive Summary, Task Force on AB 3409 Report

NOTE: This Executive Summary is reproduced from pages i-vii of *A Program-Based Funding Model for the California Community Colleges*: A Report to the Chancellor submitted by the Task Force on Community College Financing, June 1987. (Copies of the report are available from the Community College Chancellor's Office.)

AB 3409 directed the Chancellor's Office to convene a broad-based, short-term task force on community college financing reform. The legislation charged the Task Force with developing specific recommendations on:

- a new state support allocation mechanism that is sensitive to and measures the full costs associated with the delivery of community college programs and services;
- revenue adjustment components of the mechanism, which would provide for adjustments on an incremental basis for increases or decreases in workload, for equalization, for inflation, and for other legally authorized purposes;
- specific funding methodology, which would differentiate among the major categories for operating community colleges, including, but not limited to, instruction, academic support, student services, institutional support, and plant operations and maintenance;
- specific workload measures applicable for each category and subcategory.

Task force on Community College financing

To address the charges of AB 3409, the Task Force met regularly from January to June 1987. It reviewed deficiencies in the current system, examined principles of community college funding, and developed a "program-based" funding model for financing California's community colleges. As displayed by Figure 1, this model establishes five major program categories: instruction, instructional services and libraries, student services, maintenance and operations, and institutional support. It defines workload measures for each of these program categories and specifies appropriate funding standards for determining how much money should be allocated to each program category to fund a given level of workload. Based on these workload measures and funding standards, as well as information on unit costs, the model can be used to determine the allocations for each community college district in each of the five program categories. For reference, Figure 1 shows the statewide status in each category in 1984-85 compared to the proposed standards.

This approach to community college financing is consistent with the centralization of finance at the state level that has occurred since Proposition 13 and with the diverse postsecondary character of the community colleges. The model incorporates many of the features now used to finance the California State University (CSU) system and the University of California (UC). It not only will permit better comparisons with these two systems, but also will further the integration of the community colleges with the remainder of the state's public higher education system.

The Task Force concluded that this program-based funding model would be functionally superior to the current system only if it were part of a broad-based effort to reform the financing of the community colleges. Adopting the model simply to redistribute existing resources would be counterproductive and would greatly exacerbate the fiscal dislocations that the colleges have been experiencing in recent years. The program-based funding model includes a set of standards that the Task Force recommends as long-run targets for community college funding, and outlines a plan that would move the colleges towards those targets as resources become available. Imple-

FIGURE 1: Support Categories, Workload Measures, and Standards

Support Categories	Workload Measure	Proposed Standard(s)	Current Status
Instruction (Activity Codes	Full-Time Equivalent Students (FTES)	Student:Faculty Ratio of 25:1 Faculty Mix: 75% Contract, 25% Hourly	Student:Faculty Ratio of 30:1 Faculty Mix: 62% Contract, 30% Hourly, 7% Overload 1% Classified 80.9% of Proposed Standards
Instructional Services and Libraries (Activity Code 6100)	FTES	ALA/ACRL Standards for Libraries with CSU Admin. and Contract Serv. Standards Standards for Media Centers and learning Centers to be determined	72.6% of Proposed Standards
Student Services (Activity Codes 6200-6400)	Headcount Enrollment	Standard to be Determined	Not Applicable
Maintenance and Operations (Activity Codes 6500	Gross Square Footage and Acreage	Modified CSU Standards	Not Applicable
Institutional Support (Activity Codes 6000, 6000-6700)	FTES	Modified CSU Standards	88% of Standards

menting program-based funding would require additional resources for administration and data collection at both the district and state level. If program-based funding is to be a step towards adequate and equitable funding of the community colleges, the Task Force believes these costs to be justified. If, on the other hand, there is no commitment on the part of the Legislature and the Governor to increased funding for the community colleges, the disadvantages of changing to a program-based funding model would outweigh the advantages.

Costs of implementation

To understand better the impact of program-based funding on community colleges, the Task Force simulated the consequences of adopting program-based funding using data for 1984-85 (the most recent year for which complete data were available). The simulations estimated the overall costs of adopting different standards, examined the expenditure patterns that would result from applying these standards in each of the five program categories (for example, how many districts would gain or lose), examined the implications of applying program-based funding under fiscally neutral conditions, and calculated the costs of various hold harmless provisions.

Fully funding the standards proposed in this report for instruction, libraries, and institutional services would have cost $283 million in 1984-85. If standards had been appropriately defined for *all* program categories, however, the cost would have been higher. If improved standards for student services, instructional services, maintenance and operations, and instructional costs other than teaching were to increase costs by the same average percentage as the other standards, an additional $130 million would

have been needed, for a total of $413 million. This would have been an additional $600 per FTES. The Task Force recommends that this increase be accomplished in stages. For example, in instruction, reducing the ratio of full-time equivalent students (FTES) to full-time equivalent faculty (FTEF) would have cost about $22 million in 1984-85 for each unit reduction (for example, reducing the ratio from 30:1 to 29:1). Increasing the percentage of full-time contract faculty and reducing the percentage of part-time hourly faculty would have cost about $5.6 million per one percent change (for example, raising the percentage of contract faculty from a statewide average of 62 percent to 63 percent).

The costs of hold harmless -- that is, ensuring that no district's expenditures would be less than in 1984-85 -- depend on the proportion of the standard that is funded. If districts were all funded at the 1984-85 average, the costs of hold harmless would be approximately $108 million. As the average funding level increases, the number of districts needing to be held harmless decreases, until at the full standard, little or no hold harmless cost remains.

Next steps

Although the Task Force has made substantial progress in developing a system of program-based funding, there are a number of tasks that must be accomplished before implementation would be feasible. First, appropriate standards must be developed for other instructional services and for student services, and the standards proposed for the other program categories and the procedures for handling small sizes of colleges and districts must be refined. Second, projections of the impact of the program-based funding must be redone using more recent data and, where appropriate, using three-year averages. Simulations and projections for each college and district must also be made. Third, procedures for handling non-credit FTES need more attention, and standards for non-credit activity need to be developed for each program category. Finally, before full implementation the State must develop mechanisms to deal with capital outlay, with districts with unique operations (such as television facilities), and with requirements for remedial classes and other instruction and services for students with special needs.

Summary of recommendations

Program categories

1) The program-based funding system initially developed for the California Community Colleges should have five major program categories: instruction, instructional services and libraries, student services, institutional support, and maintenance and operations. Subcategories should be established for instruction (credit and non-credit) and for instructional services (libraries and other instructional services). (Page 9)*

Workload measures

2) The workload measure for the instruction, instructional services and libraries, and institutional support categories should be the number of full-time equivalent students (FTES) enrolled at the time of the first census, with full-time equivalent student defined as 15 student contact hours per week (the normal full-time load) for 35 weeks (the number of weeks of instruction per year), which is equivalent to 525 student contact hours. (Page 11)

3) The workload measure for student services should be the unduplicated headcount enrollment. (Page 13)

4) The workload measures for maintenance and operations should be gross square footage (of district-owned and leased space) and developed and undeveloped acreage. (Page 13)

Funding standards

5) Explicit funding standards should be part of the program-based funding system developed for the community colleges. Where appropriate, these standards should reflect practices established for CSU to serve similar lower division students; when CSU practices are not comparable, standards should be developed that accurately reflect the mission and circumstances of the community colleges. (Page 14)

6) The program-based funding system should initially have the following standards for instruction:

- a ratio of FTES to FTEF of 25:1 for credit instruction
- 75 percent FTEF for credit instruction will be contract faculty
- the statewide average for non-faculty instructional expenditures, with an alternative standard to be developed by the time of full implementation. (Page 14)

7) The program-based funding system should initially have the following standards for instructional services and libraries:
   - for libraries, minimum standards as established by the Association of College and Research Libraries Division (a division of the American Library Association) for two-year programs as adjusted and enhanced by CSU library standards for administrative and contract services.
   - for other instructional services, the statewide average expenditure per FTES in the year prior to implementation of program-based funding, with an alternative standard to be developed by the time of full implementation. (Page 15)

8) The program-based funding system should initially have the following standard for student services:
   - the statewide average expenditure per student enrolled for student services in the year prior to implementation of program-based funding, with an alternative standard to be developed by the time of full implementation. (Page 16)

9) The program-based funding system should initially have the following standard for maintenance and operations:
   - CSU standards modified to reflect community college situations. (page 16)

10) The program-based funding system should initially have the following standard for institutional support:
   - CSU standards modified to reflect community college situations. (page 17)

11) Adjustments for necessary small size should be included for each program category. (Page 18)

12) Any additional state influence over local expenditures should be limited to 1) offering a fiscal incentive to increase the use of contract faculty for credit instruction up to 75 percent of total credit faculty FTEF; and, 2) requiring justification for expenditure patterns that are at odds with ranges of spending that reflect typical practice in colleges and districts of similar size and demographic composition. (Page 19)

Program improvement

13) Negotiations should take place annually to determine the percentage of the standards to be funded and the sum of money to be used for program improvement through program-based funding. (Page 21)

14) Program improvement funds should be allocated using the "leveling up" approach, which targets new resources to districts that are farthest from the full standard. (Page 22)

Cost of living adjustments

15) Two statutory COLAs should be established, one for employee compensation (based on the California Personal Income Index) and one for non-personnel costs (based on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services). (Page 23)

Equalization

16) Equalization should be measured by comparing the percentages of the full standard reached by districts. Districts are equalized if they are at the same percentage of the standard. Equalization should be achieved simultaneously with program improvement. (Page 23)

Hold harmless

17) Districts operating at or above the negotiated standards adopted for program-based funding should be guaranteed expenditures at least equal to those of the year prior to the implementation of program-based funding. Subsequently, they should operate under the rules of growth and decline established for the funding system. Districts at or above the negotiated standards would receive funds for growth and would receive COLAs based on the amount of the standard funded, but would not receive any funds for program improvement. (Page 23)

Growth and decline

18) Growth in FTES should be funded at the full percentage of standard approved by the legislature in the year that growth occurs. Funding for decline in enrollment should also diminish at the full percentage of standard, but the impact should be spread over three years. Provision should be made for the chancellor's office to negotiate with the Department of Finance alternative procedures for growth and decline to reflect special circumstances. (Page 24)

19) Allowable growth for a district should depend on the change in the adult population, the local unemployment rate, and the number of high school graduates in the district. Provision should be made for a district to negotiate with the Chancellor's Office for a different allowable growth rate to reflect unusual circumstances. (Page 25)

20) The present system of funding should continue for 1987-88 unless additional funding is made available. If additional funding is made available, it should be used for program improvement. Implementation of program-based funding should begin in 1988-89, and full implementation should begin in 1989-90, with ongoing monitoring and evaluation for making further refinements. (Page 25)

21) Subsequent refinements of program-based funding should continue to assess the accuracy of available data, use three-year moving averages where this would provide a more accurate picture. (Page 27)

22) Additional staff should be provided for the Chancellor's Office to implement and administer program-based funding. (Page 28)

23) Alternatives for handling credit and non-credit activity should be more closely examined as program-based funding is developed. The desirability of distinctions in areas other than instruction should be considered. (Page 31)

24) The Task Force on Community College Financing should continue to meet to address issues related to standards for instruction other than teaching, for instructional services other than libraries, and for student services; to examine the impact of program-based funding using more recent data, including district by district simulations; to determine permissible ranges of expenditure patterns by category; and to develop procedures for handling non-credit instruction. (Page 37)

Appendix B

Commission Principles for Community College Finance

NOTE: These principles are reproduced from pages 31-33 of *Principles for Community College Finance* (Commission Report 83-14), adopted by the Commission on March 21, 1983.

Financing for the California Community Colleges should:

- Promote statewide goals of access to postsecondary education, quality of college instruction and support services, and efficient use of college resources;
- Maintain the comprehensive mission of the Community Colleges and reflect statewide and local priorities for funding;
- Recognize the shared State and local responsibility for governance of the Community Colleges;
- Promote local decision making in the management of college resources;
- Provide adequate levels of support from a variety of revenue sources; and
- Provide finance mechanisms that: (1) are stable over time and predictable in their allocation of resources; (2) relate levels of support to the costs of college operations; and (3) are equitable among districts.

Sources of support

Support for Community College education should continue to come from a variety of sources, including federal, State and local tax revenues, student fees, and contributions from business and labor.

- The State should maintain responsibility for providing adequate funding of the Community Colleges.
- Property tax revenues should continue to support general apportionments.
- Additional local revenue sources, such as local sales or income taxes, should be authorized for support of local education needs which are not being met by State funding.
- Contract agreements with business and labor should support Community College instruction in highly specific training programs designed to help particular firms.
- Student fee support for State-funded programs should be kept as low as possible. Increases in student fees should be indexed to the prior three-year average of increases in State funding for the colleges, with annual caps of plus or minus 10 percent. Increases in student fees should be accompanied by increases in State financial aid to the Community Colleges.

Levels of support

Levels of support for systemwide general apportionments and categorical programs should be:

- Determined each year by the Legislature and Governor in the budget process;
- Adequate to fund the costs of inflation as well as planned workload and program changes; and
- Sufficient to provide an adequate level of district resources for cash flow, contingency, capital outlay, maintenance, and other required future obligations.

Relation to costs

Financing mechanisms should relate support for college operations to expected costs, yet not restrict expenditure patterns, by providing:

- Differential funding based on a limited number of major instruction and support activity categories that most accurately reflect differences in the costs of Community College operations;
- Workload measures for each cost category that: (1) best relate to changes in the costs of providing the activity; (2) provide incentives consistent with stated goals and objectives for college operations; and (3) avoid undue collection and verification costs;
- Support rates that reflect demonstrated differences in costs; and
- Funding for workload change at an incremental or marginal rate that accurately reflects the variable, rather than the fixed, costs of such changes and provides adequate support for districts experiencing substantial growth

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Stability

Financing mechanisms should provide stability in the support of college operations by providing:

- Five-year legislative authorization for the basic support mechanisms;
- Phase-in of equity adjustments to district base revenues if significant budget disruptions are faced by local districts;
- Use of a base year funding level with adjustments for inflation and workload to determine budget year allocations;
- An established range in which actual workload may fall below budgeted levels without changes in district revenue; and
- Increased district flexibility to maintain support levels in constant dollars in the event that revenues are insufficient to fund necessary inflation and workload.

Equity

Financing mechanisms should promote equity among districts by providing:

- Equitable levels of support based on differential funding;
- Elimination of differences in districts; revenues that are the result of demonstrated past inequities in district wealth, tax support, or funding mechanisms; and
- Support mechanisms that are designed to be generally applicable to all districts.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
Third Floor • 1020 Twelfth Street • Sacramento, California 95814-3985

The Commission is charged by the Legislature and Governor to "assure the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs."

To this end, the Commission conducts independent reviews of matters affecting the 2,600 institutions of postsecondary education in California, including Community Colleges, four-year colleges, universities, and professional and occupational schools.

As an advisory planning and coordinating body, the Commission does not administer or govern any institutions, nor does it approve, authorize, or accredit any of them. Instead, it cooperates with other state agencies and non-governmental groups that perform these functions, while operating as an independent board with its own staff and its own specific duties of evaluation, coordination, and planning.

Operation of the Commission

The Commission holds regular meetings throughout the year at which it debates and takes action on staff studies and takes positions on proposed legislation affecting education beyond the high school in California. By law, the Commission's meetings are open to the public. Requests to address the Commission may be made by writing the Commission in advance or by submitting a request prior to the start of a meeting.

The Commission's day-to-day work is carried out by its staff in Sacramento, under the guidance of its executive director, William H. Pickens, who is appointed by the Commission.

The Commission publishes and distributes without charge some 40 to 50 reports each year on major issues confronting California postsecondary education. Recent reports are listed on the back cover.

Further information about the Commission, its meetings, its staff, and its publications may be obtained from the Commission offices at 1020 Twelfth Street, Third Floor, Sacramento, CA 98514; telephone (916) 445-7933.

Functions of the Commission

The California Postsecondary Education Commission is a citizen board established in 1974 by the Legislature and Governor to coordinate the efforts of California's colleges and universities and to provide independent, non-partisan policy analysis and recommendations to the Governor and Legislature.

Members of the Commission

The Commission consists of 15 members. Nine represent the general public, with three each appointed for six-year terms by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. The other six represent the major segments of postsecondary education in California.

As of January 1988, the Commissioners representing the general public are:
Mim Andelson, Los Angeles
C. Thomas Dean, Long Beach, Chairperson
Henry Der, San Francisco
Seymour M. Farber, M.D., San Francisco
Lowell J. Paige, El Macero
Cruz Reynoso, Los Angeles, Vice Chairperson
Sharon N. Skog, Palo Alto
Thomas E. Stang, Los Angeles
Stephen P. Teale, M.D., Modesto

Representatives of the segments are:

Yori Wada, San Francisco; representing the Regents of the University of California

Claudia H. Hampton, Los Angeles; representing the Trustees of the California State University

Borgny Baird, Long Beach; representing the Board of Governors of the California Community Colleges

Harry Wugalter, Thousand Oaks; representing the Chairman of the Council for Private Postsecondary Educational Institutions

Angie Papadakis, Palos Verdes; representing the California State Board of Education

James B. Jamieson, San Luis Obisbo; representing California's independent colleges and universities

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DEVELOPMENTS IN COMMUNITY COLLEGE FINANCE

A Staff Report to the California Postsecondary Education Commission
California Postsecondary Education Commission Report 87-46

One of a series of reports published by the Commission as part of its planning and coordinating responsibilities. Additional copies may be obtained without charge from the Publications Office, California Postsecondary Education Commission, Third Floor, 1020 Twelfth Street, Sacramento, California 95814-3985.

Recent reports of the Commission include:

87-33 Information Manual: A Guide to the Commission, Its Policies, Procedures, and Members (September 1987)

87-35 Appropriations in the 1987-88 State Budget for the Public Segments of Higher Education: A Staff Report to the California Postsecondary Education Commission (September 1987)

87-36 Supplemental Report on Academic Salaries, 1986-87: A Report to the Governor and Legislature in Response to Senate Concurrent Resolution No. 51 (1965) and Subsequent Postsecondary Salary Legislation (September 1987)

87-37 Improving Student Performance Reporting, Review and Epilogue: The Final Report of the Commission's Project on Transforming Student Academic Performance Data into Useful Information (September 1987)

87-38 California College-Going Rates, 1986 Update: The Tenth in a Series of Reports on New Freshmen Enrollment at California's Colleges and Universities by Recent Graduates of California High Schools (September 1987)

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87-50 California Postsecondary Education Commission News, Number 3 [The third issue of the Commission's periodic newsletter] (December 1987)

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